Slater Steel 1979 Annual Report

Slater Steel Industries Limited was incorporated in 1962 and includes two Divisions located in Hamilton, Ontario; Burlington Steel, a steelmaking operation founded in 1910, and Slater Products, a pole line hardware manufacturer, incorporated in 1917 as N. Slater Company, Ltd. Slater Steel Industries Limited also holds a 20.2% interest in Interprovincial Steel and Pipe Corporation Ltd. (IPSCO), a major integrated steel pipe manufacturing company located in Regina, Sask.

Burlington Steel is a specialty mini-mill producing several grades of carbon and alloy steels from scrap in three electric furnaces. The molten product is continuously cast into billets and subsequently converted into a variety of sizes and shapes in bar form on a modern continuous rolling mill. The operation has a capacity of 250,000 tons per year of product output which is sold to the automotive, agricultural, construction and utility markets in both Canada and the U.S.A.

Slater Products is the largest pole line hardware manufacturer in Canada, producing more than 3,000 different items for the electrical transmission and communications markets. The manufacturing facility includes a broad range of material processing including forging, aluminum casting, pickling and galvanizing, stamping and forming, heat treating, welding, machining and wire forming. The 'Slater' product line is highly engineering oriented from the standpoint of design, quality evaluation and field service.

Interprovincial Steel and Pipe Corporation Ltd. produces steel by electric furnace refining, which is processed into coils of flat rolled skelp or sheet. The major portion of its output is converted into tubular pipe products, ranging in size from ½″ to 80″ diameter, at one of three manufacturing facilities located in Regina, Sask., Edmonton, Alta. and Port Moody, B.C. Production capacity is 400,000 tons per year of finished product, which includes high pressure line pipe for oil and gas transmission, water line pipe, oil well casing and tubing and hot rolled sheet for commercial application.

Annual Meeting The Annual Meeting of Shareholders will be held at 11:00 a.m. on Wednesday, July 4, 1979 in Meeting Room #1, Hamilton Place (McNab Street Entrance), Hamilton, Ontario.

Slater Steel Industries Limited

681 KING STREET WEST, HAMILTON, ONTARIO

Interim Report

September 30, 1979

Slater Steel Industries Limited

To Our Shareholders:

Your Directors are pleased to submit the unaudited Consolidated Statement of Earnings and unaudited Consolidated Statement of Changes in Financial Position for the six months ended September 30, 1979 with results for the most recent quarter and comparative figures for the previous year.

Sales for the first half of Fiscal '80 were $49,768,000, an increase of 15% over the previous year while sales in the September quarter, at $23,443,000, were 20% ahead of sales in the same quarter of last year.

Although earnings for the first six months of Fiscal '80 at $4,377,000, or $1.63 per common share, were marginally lower than last year's comparable figure of $4,442,000, or $1.65 per common share, the results of the two operating divisions were somewhat ahead of last year. The decrease in earnings was due to our equity earnings in Interprovincial Steel and Pipe Corporation Ltd. (IPSCO) being lower as a result of a strike which lasted approximately two months. Earnings in the September quarter of $1,857,000, or 68¢ per common share, were 17% lower than the $2,255,000, or 84¢ per share earned in the same quarter of the previous year.

While earnings in the September quarter, from integrated operations, were expected to be down from the results achieved in the first quarter of Fiscal '80 — chiefly as a result of seasonal factors and the annual plant shutdowns — projected earnings of the Burlington Steel Division were further affected by a number of external factors. These included higher than expected raw material costs, particularly scrap, and a significant change in product mix due to a reduction in sales of Special Bar Quality and Alloy grades of steel as a result of the lower demand from the automotive industry. This lower demand resulted from the general slowdown during their union negotiating period and the delay in the introduction of the 1980 models because of the large inventories on hand of unsold cars.

Slater Products Division shipments for the six months to September 30, 1979 were comparable to those of the same period of the previous year, but sales for the September quarter were 29% down from the record sales achieved in the first quarter and 10% below last year's level. This shortfall was primarily due to some reduction in E.H.V. project hardware concurrent with the downcycle in demand for these commodities.

The Slater Steel equity in earnings of Interprovincial Steel and Pipe Corporation Ltd. (IPSCO) for the September quarter amounted to $945,000, an increase of 11% over the same quarter of last year and substantially ahead of the June quarter. The Company's equity of $1,205,000 in IPSCO's earnings for our first six months, which is shown in the Consolidated Statement of Earnings, includes dividends received of $324,000.

We anticipate an improvement in earnings performance in the December quarter as a result of a better product mix in both divisions as well as a continuation of good business activity.

Due to the improved stability of our business performance, your Directors have increased the dividend on common shares to 25¢ per quarter effective with the dividend payment of October 31, 1979.

Bruce M. Hamilton

B. M. Hamilton
President

October 30, 1979
Hamilton, Ontario

SLATER STEEL INDUSTRIES LIMITED

Consolidated Statement of Earnings

(In thousands of dollars)
(Unaudited)

	SIX MONTHS TO SEPTEMBER 30		QUARTER ENDED SEPTEMBER 30	
	1979	1978	**1979**	1978
Net sales	**$ 49,768**	$ 43,030	**$ 23,443**	$ 19,389
Cost of sales, excluding the following items	**42,724**	36,399	**21,129**	16,149
Depreciation	**1,356**	1,200	**678**	599
Interest on long term debt	**299**	407	**153**	193
Other interest	**126**	63	**100**	38
	44,505	38,069	**22,060**	16,979
	5,263	4,961	**1,383**	2,410
Income taxes	**2,091**	2,058	**471**	1,000
Earnings before equity in earnings of Interprovincial Steel and Pipe Corporation Ltd. (IPSCO)	**3,172**	2,903	**912**	1,410
Equity in earnings of IPSCO (Note)	**1,205**	1,539	**945**	845
Net earnings for the period	**$ 4,377**	$ 4,442	**$ 1,857**	$ 2,255
Net earnings per common share	**$1.63**	$1.65	**$0.68**	$0.84

Consolidated Statement of Changes in Financial Position

(In thousands of dollars)
(Unaudited)

	SIX MONTHS TO SEPTEMBER 30	
	1979	1978
SOURCE OF FUNDS		
Operations		
Earnings before equity in earnings of IPSCO	**$ 3,172**	$ 2,903
Depreciation	**1,356**	1,200
Deferred income taxes	**—**	(204)
Dividends received	**324**	282
Funds from operations	**4,852**	4,181
Decrease in other assets	**73**	41
	4,925	4,222
USE OF FUNDS		
Net additions to fixed assets	**1,875**	452
Reduction of long term debt	**—**	2,106
Retirement of preference shares	**167**	39
Dividends	**1,330**	694
	3,372	3,291
INCREASE IN WORKING CAPITAL	**$ 1,553**	$ 931

Note: Equity in earnings of IPSCO is for the period ended August 31, 1979 based on the latest published information issued by IPSCO.

President's message

We are pleased to report that Fiscal 79 was a "banner" year for Slater Steel Industries Limited. Sales and earnings records were established for the Company and we anticipate that this performance will provide a strong base for continuance of progress in the coming year.

Our results in Fiscal 79 should not be looked upon as "windfall" since they represent the outgrowth of several years of planning and change. It is recognized that change for the sake of change can cause disruption and apprehension within an organization; however, the many moves that were implemented at Slater Steel, over the past few years, had to be made in order to find and develop positions of advantage and growth for both operating Divisions.

Recognition of our strengths and weaknesses has been the basis for development of our long range strategy. Capital spending programs, methods improvements and product development, as well as product obsolescence, have received emphasis and priority as essential ingredients to our business planning. Major attention has been given to unique manufacturing practices, specialty product emphasis and proprietary design enabling your Company to break with its traditional business and create new niches for Slater Steel Industries Limited in the marketplace. The success of our planning and implementation of these various actions is evidenced by the excellent improvement in our financial results.

While some concern has existed regarding the performance of the Canadian economy in the past year, our domestic steel industry has

Bruce M. Hamilton, President

Highlights

$000's except per share data	1979	1978	Change
Net sales	$95,924	$64,520	+ 49%
Net earnings before extraordinary item	11,085	3,748	+196%
Net earnings	11,085	3,319	+234%
Capital expenditures	1,624	900	+ 80%
Depreciation	2,328	2,216	+ 5%
Working capital	17,165	16,865	+ 2%
Fixed assets — net	23,201	23,905	− 3%
Per common share data			
Net earnings before extraordinary item	$ 4.16	$ 1.31	+218%
Net earnings	$ 4.16	$ 1.14	+265%
Dividends declared	$ 0.70	$ 0.32	+119%
Shareholders' equity	$20.50	$17.02	+ 20%

enjoyed excellent demand, as have other elements of our manufacturing industries. Many domestic businesses have had the added benefit of the low Canadian dollar which has stimulated export sales and curtailed imports. A healthy business climate has been the result, with a large segment of our industry operating at capacity. There is every reason to believe that these buoyant conditions will continue at least throughout the first half of 1979, although some softening of the market could take place in late 1979 and early 1980.

It is recognized that there is a degree of uncertainty for future business trends in Canada and that there are elements over which our country has little influence or control, which could affect the economy. In spite of these concerns, we are optimistic about the future course of your Company. We have achieved versatility in our operations and established a work climate that utilizes and encourages the ingenuity and innovation of our people. Our overall business strategy places emphasis on products that provide growth prospects, adaptability to our capabilities and high return on sales. In creating product change, we have sought market opportunities that minimize cyclical trends and fill particular market needs. This approach has established the framework for our business and the direction for our continued development activities.

Interprovincial Steel and Pipe Corporation Ltd. has enjoyed record sales in the past year, in spite of the dormant market for one of their prime products — spiral welded large diameter pipe. Sales of ERW pipe and flat rolled product increased significantly, reflecting a strong market for these commodities which IPSCO was able to supply. The expansion program of their steelmaking and rolling mill facilities, which is well under way, is designed to broaden their product range, increase capacity and improve quality. This capital addition is the initial phase of an overall capital program required to prepare IPSCO as a major source of supply of Arctic gas transmission pipe.

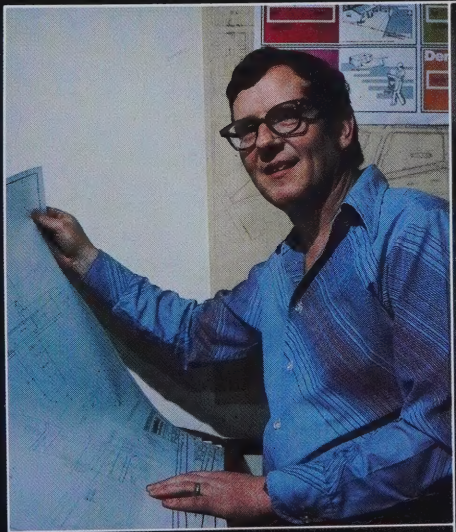
In July 1978, Mr. E. Peter Gush, President of Hudson Bay Mining and Smelting Co., Limited, was elected to our Board of Directors to fill the vacancy created by the resignation of Mr. R. W. Cooper. Mr. Gush will be of considerable value to our Board with his technical and managerial background in the metals industry.

On behalf of your Board of Directors, I would like to commend our employees on their contribution to the exceptional performance of your Company in Fiscal 79. Their enthusiasm and input during this period of many moves and changes was of significant value and is sincerely appreciated.

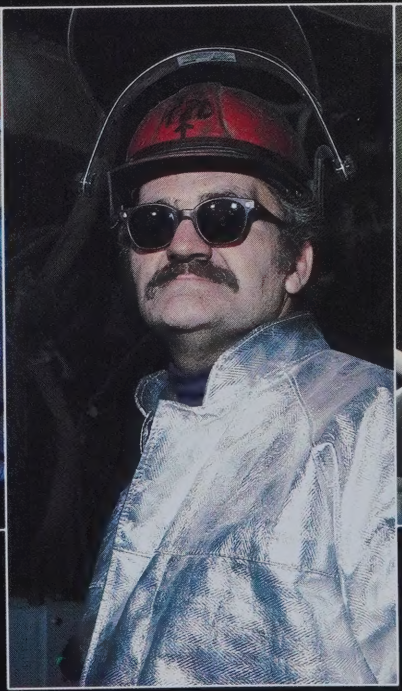
Bruce M. Hamilton

Bruce M. Hamilton, President

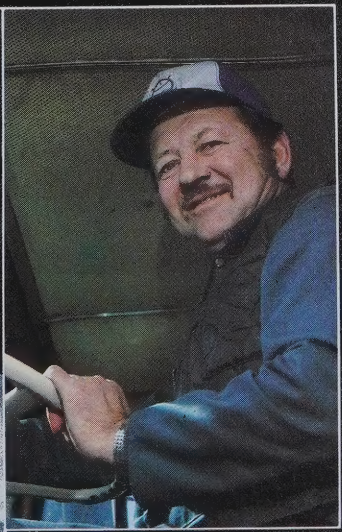
Burlington Steel



Fred Spoelstra
Plant Engineering Technician
Engineering



Ed Bowman
Tundish Conditioner
Melt Shop



Stan Lusin
Heavy Duty Truck Driver
Yard

Fiscal 79 was a year of sales and production records. These results were a direct outgrowth of the ongoing changes and technological developments at Burlington Steel which have enabled us to produce increasing quantities of special bar quality and alloy grades of steel.

The excellent performance by the Division was enhanced by many positive economic events, as well as by the dedication of our people, some of whom you will see pictured throughout this report. The strong North American demand for steel in 1978 enabled Burlington Steel to operate close to maximum capacity and achieve a marked improvement in product mix and price stability. At the same time, on-going improvements in facilities through capital investment and manufacturing practices contributed significantly to operating efficiencies and productivity. The U.S. dollar exchange rate helped to increase profit margins on export sales, although these shipments were held at traditional levels in order to support our domestic customers. All of these factors enabled Burlington Steel to increase earnings by more than 250% over the previous year.

Marketing Shipments in Fiscal 79 increased by 34% over the previous year to a new high tonnage of 237,100. This achievement was made despite continuing depressed conditions in the construction and farm implement areas, particularly in the early part of the year. The buoyant automotive market and service centre requirements, together with our aggressive marketing of special bar and alloy steels, more than offset the shortcomings in other segments of the market, with alloy spring steels becoming the Division's principal product line.

For many years, Burlington Steel has been a major supplier of light structural angles and channels to the marketplace. However, the improved automated practices in newly designed mills made it impossible for us to remain competitive and provide satisfactory profit margins for these commodities. Angles were rolled for the last time in June, 1978 and in November the last structural channel was produced, reducing our reliance on the cyclical market of product lines that were no longer providing satisfactory earnings. These changes enabled Burlington Steel to maximize emphasis on steelmaking practices and marketing of special bar and alloy steels. Shipments of these products increased considerably during the year, resulting in much improved product mix.

Manufacturing Raw steel production during Fiscal 79 totalled 261,200 tons, a 33% increase over the previous year and a new high in Melt Shop activity. At the same time, the Mill rolled 228,200 tons of finished product, a 23% increase and also a new high for the Rolling Mill. The greater demands at these levels of production provided both challenge and achievement for our people, not only in organization

Joe Sutlich
Cut Off Withdrawal Operator
Concast

Marilyn Paddon
Maintenance Clerk
Maintenance

George Johnston
Hooker Loader
Shipping

Ron Henderson
Roll Turner
Roll Shop

planning, but in preventive maintenance, breaking in new crews and material scheduling.

Manufacturing costs, such as energy, wages, salaries and supplies increased significantly, while average scrap purchase costs were up over 40% during the year. Our cost control program reduced the impact of these cost increases through specific attention and improvements in various management functions which included such activities as judicious scrap charges, manpower utilization and procurement practices.

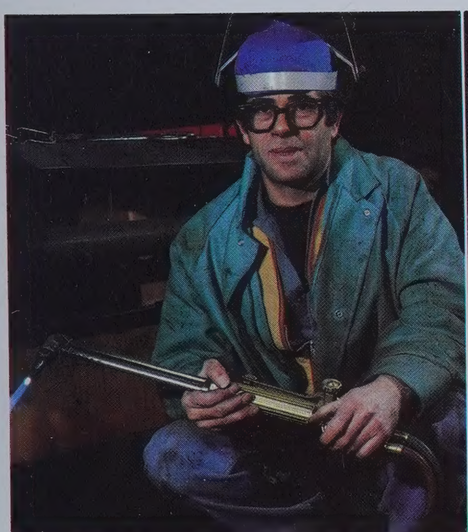
The capital expenditure program, although higher than Fiscal 78, was held at a modest level and many months of evaluation and planning have gone into the development of a long term program. The major capital spending in Fiscal 79 was to improve the quality of our specialty steels, increase productivity and improve safety conditions.

People An increase in activity during Fiscal 79, and greater participation in SBQ and alloy steels, called upon our people for extra effort and contribution. Our growing success in these new markets has been enhanced by the interest and enthusiasm of the entire organization. Programs of regular communication with all employees were continued during the year, as were the regular meetings with our Union executive, in order to keep the entire work force informed on the trends and requirements of our business.

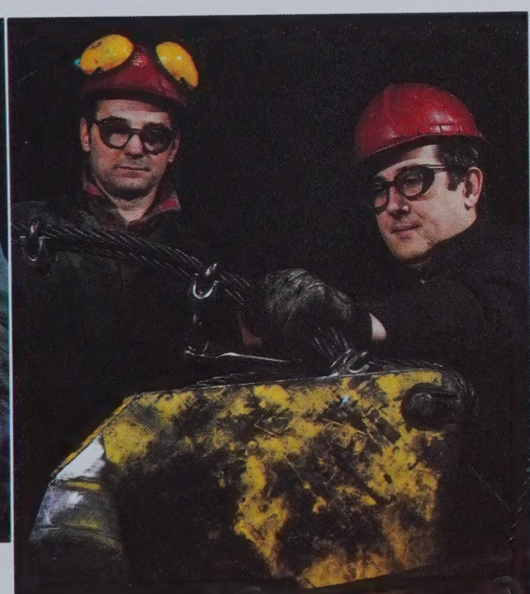
The Division's safety record improved again last year to one of the best industrial records in Ontario. We are all especially proud of this performance since it represents the sincere desire and intent of the entire Burlington Steel organization to eliminate accidents and unsafe working conditions.

Future Steel demand in the coming year is looked upon with some apprehension based upon forecast softening of the manufactured goods market in North America. However, the present demand for our steel bar products is strong and there is no indication of a change in this prospect. The current product mix provides a relatively broad base for sales, with a blend of markets which will minimize the cyclical trends that have faced Burlington Steel in past years. We expect to maintain a satisfactory level of participation with the various industries we serve and in the range of products we supply. It is our intention to direct future efforts to further strengthen consistency of sales by tailoring our product range to opportunities and growth markets.

The initiative and ingenuity of our people, the capital spending programs and the application of procedural changes and improvements will all work to advantage in providing a reliable and growing place for us in the steel industry.

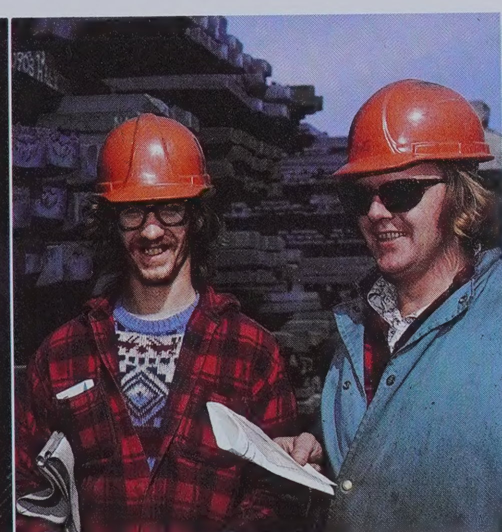


Nick Tselepakis
Welder
Maintenance



Joe Callura
Oiler Greaser
Maintenance

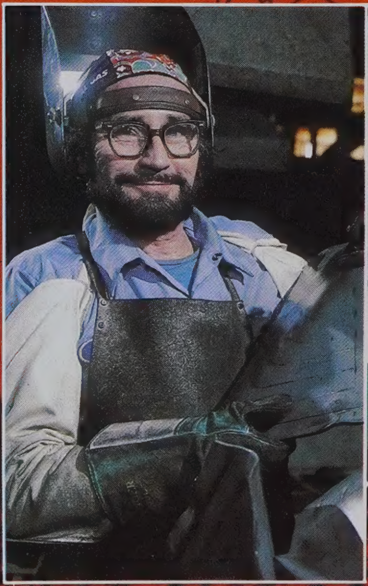
Geoff Holt
Pipefitter/Millwright
Maintenance



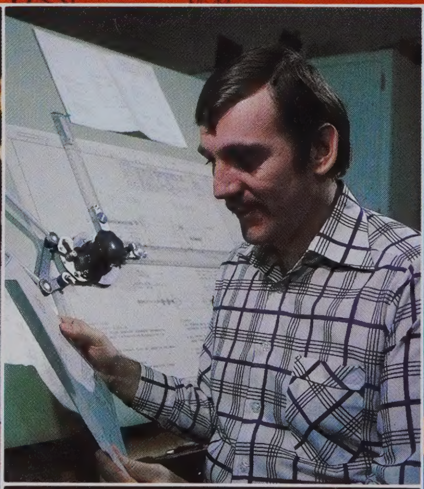
Bob Volpato
Billet Yard Man
Billet Yard

Pete Kushner
#6 Crane Operator
Hot Shears

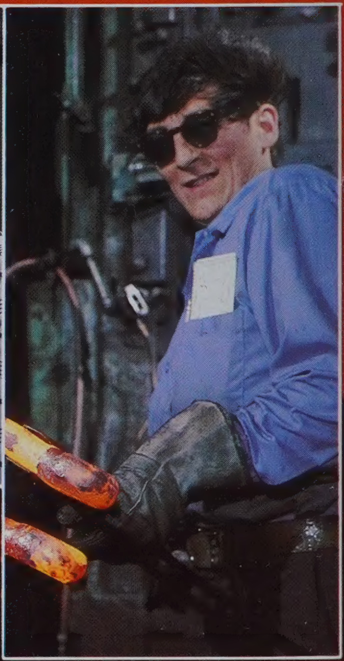
Slater Products



Cliff Hill
Production Welder
Welding



Richard "Woody" Woodward
Design Draftsman
Engineering



Yves Bellehumeur
Hot Forge Operator
Forge

During Fiscal 79 Slater Products settled into a pattern of stable growth through sales expansion, increased manufacturing output and research and development programs for new and improved products, which have provided a base from which to continue the momentum into Fiscal 80.

The significant increase in shipments during a fairly turbulent year in the electrical utilities market indicated that our domestic business was sound, in spite of some erosion in the basic Pole Line Hardware business. While the improvement in sales for Fiscal 79 reflected more stable pricing conditions, the major portion of growth was the result of higher volume of output.

Marketing Sales for Fiscal 79 rose 31% from last year, mainly as a result of major participation in the high voltage hardware requirements of the provincial electrical utilities on such items as Spacer Dampers, Guying Hardware, Suspension and Dead End Assemblies.

Overall sales of Pole Line Hardware were equal to the previous year, with limited participation in standard hardware for the electrical utility market reflecting the broad range of suppliers bidding on this business. This market was also affected by the practice of provincial utilities purchasing their requirements on annual tender, giving preference to local manufacturers. Sales of standard hardware to the communications market reached a record high due to our ability to supply and service a complete product line in this field of application.

Sales of our 'Preformed' line were up by 42% over last year as a result of strong demand for proprietary items such as Guy Grips, Preformed Spacers and Armor Grip Suspension units. We have continued to perform effectively in this market because of our superior product and reliability of supply.

The O.E.M. portion of our business strengthened considerably in Fiscal 79 as the result of a strong demand for stampings and steady activity in aluminum permanent mould casting.

An in-depth market study, both in Canada and the U.S., was conducted to identify opportunities in the consumer market area and a line of outdoor equipment related to gardening has been selected with initial entry to be made in the summer of 1979.

Manufacturing In order to ensure continued reliability of quality and service to our customers, we consolidated the activities of Material Control, Production Scheduling and Manufacturing into one

Terry Payne
Laboratory Supervisor
Engineering

Val Trainor
Switchboard Operator
Office Services

Frank Rallo
Heavy Press Operator
Lower Press

Mark Duce
Quality Assurance Supervisor
Engineering

operating group. The better communication resulting from this change enabled our operations to meet all monthly sales budgets in Fiscal 79 and improved the reliability of our deliveries.

Our capital spending continued at a modest pace with two pieces of capital equipment added to operations — a multi-spindle drill and a heavy duty bar shear, each required to improve operating efficiencies at regular work centres. Restructuring plans for our Foundry were initiated and will be considered for implementation in Fiscal 80 with the object of improving productivity, quality and working conditions.

Engineering While our Engineering group provides quality surveillance to manufacturing and technical service to customers, the key element of their responsibility is design innovation. This group works closely with their counterparts in the Utility field, both in Canada and the U.S., to study and improve the performance of power transmission systems. Their understanding of the field requirements for high voltage hardware qualifies our Engineering people to provide consultation and to design and tailormake components for this application.

People The superior performance of this Division during Fiscal 79 is largely due to the input from our work force which consists of concerned, experienced people, ready for the challenge of a period of growth into new territories, market places and products. We have developed a first class working climate which is the basis for continued improvement in safety, efficient manufacturing performance, and contribution of ideas pertinent to our future growth.

Future While controversy continues over the use of nuclear reactors for the generation of electrical energy, both consumer and industrial demand for electrical power continues to expand. Power transmission technology has become increasingly sophisticated in direct relationship to the growing energy requirements of our modern-day society. Pole Line Hardware has, of necessity, changed from conventional design to a highly engineered product, an area in which we are well prepared to take a leading role, in both domestic and global markets.

We expect the year ahead to be comparable to Fiscal 79 in market, product mix and volume. We anticipate increased export activity from a product introduction standpoint, more particularly in the U.S. Support emphasis to this direction will be supplied by our Sales and Engineering people, while production scheduling and inventory control systems will continue to be modified to insure our response to changing market conditions.

Jack Mullen
Head Potman
Galvanizing

Debbie Hart
Stock Records
Material Control

Rick Herod
Assembler
Assembly

Sam Tamberelli
Turret Lathe Operator
Upper Press

Personnel

An average of 1,100 employees were on the payrolls in Fiscal 79, which was a slight increase over last year. Wages and salaries paid for work totalled $18,437,000 and an additional $2,111,000 was paid for vacation pay and holidays. Premiums for Group Insurance amounted to $762,000 and the Company contribution to Pension Plans was $1,597,000. The sum of $1,425,000 was paid to various government departments for Canada/Quebec Pension Plans, Unemployment Insurance, Medical, Hospital and Workmen's Compensation benefits. The end result was that for every $1.00 paid directly for wages and salaries, an additional 32¢ was paid out, directly or indirectly, as a benefit for the employees.

Labour contract negotiations occurred during the second half of the fiscal year, with the Burlington Steel and Slater Products agreements expiring December 31, 1978 and January 31, 1979 respectively. At Burlington Steel, a memorandum of settlement for a three year agreement was signed on January 6, 1979, which was slightly before the conciliation stage. The economic elements of this pact were generally similar to improvements implemented by the major steel producers in the summer of 1978. At Slater Products, a memorandum of settlement for a three year agreement was signed by the negotiating committees on February 9, 1979, a few days following a meeting with a conciliation officer. The monetary improvements for this agreement were in line with recent settlements in comparable manufacturing type industries.

Improvements to the benefit program for salaried employees were announced and implemented during the last quarter of the fiscal year. In addition, our pensioners were advised that their annuities would be increased.

The organization was re-examined in conjunction with the Company's medium to long range plans to provide for further decentralization of services in the Purchasing, Financial and Information Systems areas, with the majority of people reporting through the Division in which they serve. The restructuring will be phased in during Fiscal 80 with completion scheduled by fiscal year end.

The Company continues to provide financial support to many non-profit groups in the community including academic, charitable, cultural, medical and service organizations. In addition, managerial assistance is provided by appointment of senior personnel to boards of directors and working committees.

We acknowledge, also, that many of our employees give their time and money to support volunteer work in their particular communities and we congratulate them on their efforts.

Financial review

Sales and earnings Consolidated net sales for the year ended March 31, 1979 were $95,924,000, an increase of 49% over sales of $64,520,000 in the comparable prior year. Record sales levels were achieved by both operating Divisions in Fiscal 79 through increased volumes and significantly improved product mix. Sales by Slater Products Division were up by 31% with the improvement resulting largely from stronger activity in major supply contracts for Extra High Voltage hardware. Burlington Steel Division sales increased by 53% in the year with shipped tonnages of rolled product up 34% and the balance of increased sales attributable to pricing improvements and an increase in shipments of special bar and alloy quality steel.

Earnings for the year were $11,085,000, or $4.16 per common share, an increase of 196% over comparable earnings, before extraordinary item, of $3,748,000, or $1.31 a year earlier. Earnings from integrated operations, before equity in earnings of Interprovincial Steel and Pipe Corporation Ltd. (IPSCO), amounted to $8,128,000 in Fiscal 79, representing an 8.5% return on sales compared to $2,065,000, or 3.2% in the previous year.

Financial position Cash generated from operations in Fiscal 79 was $10.6 million, equivalent to $3.96 per common share, compared to $4.6 million, or $1.65 last year. Funds were used to purchase plant and equipment for $1.6 million, reduce long term debt by $4.1 million, provide dividends of $2.2 million and acquire an additional $2.2 million investment in IPSCO.

Working capital increased by $0.3 million to $17.2 million at year end, while the ratio of current assets to current liabilities decreased marginally during the year from 2.6:1 to 2.2:1. Current assets increased by $4.7 million in Fiscal 79 as a result of the increased shipping and operating levels

with accounts receivable increasing by $3.4 million, or 30%, and inventories up by $1.5 million. However, accounts receivable, as measured by outstanding receivable days, have improved significantly. Current liabilities increased by $4.4 million with accounts payable and accrued charges up $3.2 million, or 47%, again due to increased operating levels. Increases in income taxes payable of $1.7 million and dividends payable of $0.7 million were partially offset by a reduction of $1.2 million in current bank advances.

Capital expenditures Capital expenditures amounted to $1.6 million during the year, comparable to the level of plant and equipment additions of two years ago and increased 80% over the $0.9 million expended last year.

The annual depreciation provision has exceeded plant and equipment additions during each of the past three years, contributing $700,000 towards net cash flow in Fiscal 79. However, at year end, the Company had outstanding capital commitments of $1.6 million and fixed asset expenditures for Fiscal 80 are estimated at $3.5 million.

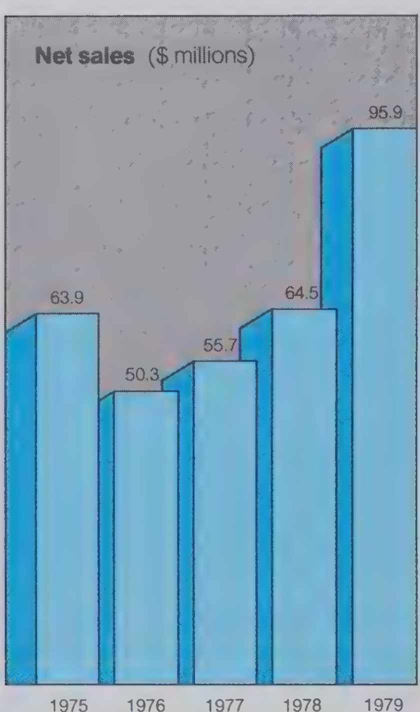
Interprovincial Steel and Pipe Corporation Ltd. (IPSCO) Sales, as reported by IPSCO to its shareholders for the twelve month period ended February 28, 1979, were $189.1 million, an increase of 22% over the previous year. Earnings in the same twelve month period ended February 28, 1979 were $15.8 million compared to $9.5 million for the previous comparable period.

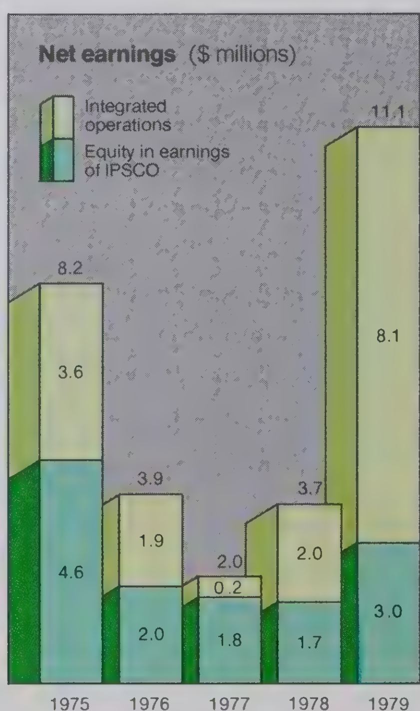
Slater Steel's equity in these earnings, which is shown in the Consolidated Statement of Earnings, amounted to $2,957,000 for Fiscal 79 compared to $1,683,000 last year. Dividends received during the year were unchanged at $563,000.

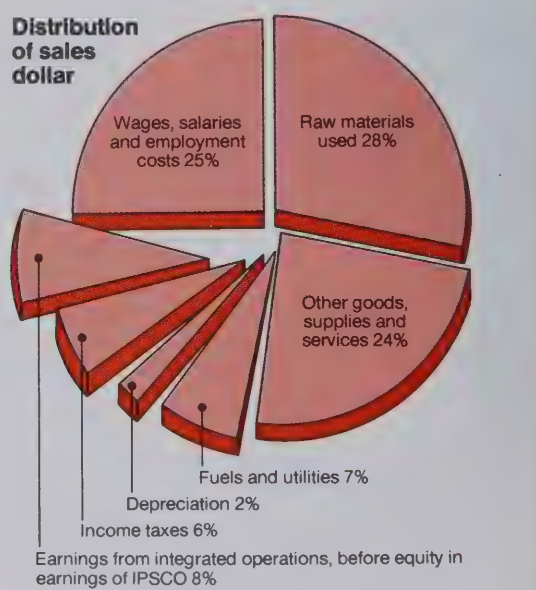
As outlined in Note 4 to the Consolidated Financial Statements, the Company acquired 142,592 additional common shares, pursuant to IPSCO's equity rights issue, at a cost of $2,179,000. This has increased the Company's holdings to 1,080,992 common shares of IPSCO, which continues to represent 20.2% of its issued and outstanding common shares, equal to the holdings controlled by Steel Alberta and the Province of Saskatchewan.

Shareholders Common shareholders' equity increased to $20.50 per share at year end, up 20% from $17.02 during the year. The return on common shareholders' equity was 22.2% in Fiscal 79 compared to 7.9% in the previous year.

As a result of the improvement in earnings, your Directors increased the quarterly dividend on common shares from 8¢ declared during Fiscal 78 to 10¢, 10¢, 15¢ and 20¢ respectively during the four quarters of Fiscal 79. In addition, your Directors declared an extra dividend of 15¢ per common share. Dividends declared on common shares amounted to 70¢ per share in Fiscal 79 compared to 32¢ in the previous year.







Consolidated Statement of Earnings ($000's)

Year ended	March 31, 1979	April 1, 1978
Net sales	$95,924	$64,520
Cost of sales, excluding the following items	78,749	57,827
Depreciation	2,328	2,216
Interest on long term debt	768	959
Other interest	102	253
	81,947	61,255
	13,977	3,265
Income taxes	5,849	1,200
Earnings before equity in earnings of IPSCO and before extraordinary item	8,128	2,065
Equity in earnings of IPSCO (note 4)	2,957	1,683
Earnings before extraordinary item	11,085	3,748
Extraordinary item	—	429
Net earnings for the year	$11,085	$ 3,319
Earnings per common share		
—before extraordinary item	$4.16	$1.31
—net earnings	$4.16	$1.14

Consolidated Statement of Retained Earnings ($000's)

Year ended	March 31, 1979	April 1, 1978
Balance at beginning of year	$31,529	$29,311
Net earnings for the year	11,085	3,319
Surplus realized on retirement of preference shares	63	89
	42,677	32,719
Dividends		
Preference shares	350	364
Common shares	1,808	826
	2,158	1,190
Balance at end of year	$40,519	$31,529

Consolidated Balance Sheet ($000's)

As at	March 31, 1979	April 1, 1978
Current assets		
Accounts receivable	$14,868	$11,427
Inventories (note 2)	16,780	15,294
Other current assets	207	463
	31,855	27,184
Investment in Interprovincial Steel and Pipe Corporation Ltd. (IPSCO) (note 4)	30,693	26,120
Fixed assets (note 3)	23,201	23,905
Other assets	148	133
Total assets	$85,897	$77,342
Current liabilities		
Bank advances	$ 226	$ 1,446
Accounts payable and accrued charges	9,987	6,776
Income taxes payable	3,488	1,801
Dividends payable	989	296
	14,690	10,319
Long term debt (note 5)	5,407	9,513
Deferred income taxes	6,864	7,298
Shareholders' equity		
Preference shares (note 6)	5,989	6,255
Common shares (note 7)	12,428	12,428
Retained earnings	40,519	31,529
	58,936	50,212
Total liabilities and shareholders' equity	$85,897	$77,342

On behalf of the Board:

G. P. Osler, Director

B. M. Hamilton, Director

Consolidated Statement of Changes in Financial Position ($000's)

Year ended	March 31, 1979	April 1, 1978
Source of funds		
Operations		
Earnings before equity in earnings of IPSCO and before extraordinary item	$ 8,128	$ 2,065
Depreciation	2,328	2,216
Deferred income taxes	(434)	(232)
Dividends received	563	563
	10,585	4,612
Use of funds		
Net additions to fixed assets	1,624	900
Reduction of long term debt	4,106	2,020
Retirement of preference shares	203	190
Dividends	2,158	1,190
Investment in IPSCO	2,179	—
Increase in other assets	15	39
	10,285	4,339
Increase in working capital	300	273
Working capital at beginning of year	16,865	16,592
Working capital at end of year	$17,165	$16,865

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Slater Steel Industries Limited as at March 31, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at March 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand, Chartered Accountants
April 27, 1979, Hamilton, Ontario

Notes to Consolidated Financial Statements March 31, 1979

1. Summary of principal accounting policies

Principles of consolidation The Consolidated financial statements include the accounts of Slater Steel Industries Limited and its wholly owned subsidiary, N. Slater Company, Limited. The investment in Interprovincial Steel and Pipe Corporation Ltd (IPSCO) is accounted for by the equity method and includes equity in undistributed earnings to February 28, 1979, based on the latest information reported to its shareholders.

Inventories Inventories are valued at the lower of cost and net realizable value. Inventories of Slater Products Division are recorded at standard cost and inventories of Burlington Steel Division are recorded at average cost, both systems based on current material, labour and overhead costs.

Income taxes Income taxes are provided on the tax allocation method and the resultant deferred income taxes are due principally to claiming depreciation for tax purposes in excess of depreciation provided. Investment tax credits are recorded in the year of the related plant or equipment expenditures by a reduction of income tax expense. The statutory 3% inventory allowance is recognized as a reduction in the current income tax provision in the Consolidated Statement of Earnings.

Fixed assets In 1961, property, plant and equipment of the Burlington Steel Division was restated to reflect depreciated replacement value as appraised by Warnock Hersey Appraisal Company Ltd. All other fixed assets, including subsequent additions to the Burlington plant, are recorded at cost. Fixed assets are depreciated at annual rates intended to write them off over their estimated useful lives.

Rates for major assets are:

Buildings	5% to 6⅔% straight line
Machinery and equipment	5% to 6⅔% straight line

Based on the latest published information issued by IPSCO, fixed assets are stated at cost and depreciation is provided at the following annual rates:

Buildings	2½% to 4% straight line
Machinery and equipment	4% to 10% straight line

2. Inventories

	1979	1978
	(in thousands of dollars)	
Raw materials and supplies	$ 6,865	$ 3,898
Work in process	5,971	4,129
Finished goods	3,944	7,267
	$16,780	$15,294

3. Fixed assets

	1979	1978
	(in thousands of dollars)	
Land	$ 3,306	$ 3,277
Buildings, machinery and equipment	41,910	40,349
	45,216	43,626
Less accumulated depreciation	22,015	19,721
	$23,201	$23,905

4. Investment in Interprovincial Steel and Pipe Corporation Ltd. (IPSCO)

In December 1978, the Company exercised its equity rights to acquire an additional 142,592 common shares of IPSCO for $2,179,000, a cost $880,000 below the underlying net book value. The total excess cost of shares over the underlying net book value of the investment at the respective dates of acquisition has accordingly been reduced to $8,559,000. The equity in earnings of IPSCO is being reduced by $236,000 per annum, an amount sufficient to amortize the total excess cost over a period not to exceed forty years.

The investment in 142,592 additional common shares acquired in Fiscal 1979 has increased the Company's holdings to 1,080,992

common shares of IPSCO which continues to represent 20.2% of its issued and outstanding shares. The investment is stated at cost, as reduced for amortization of excess cost, plus equity in undistributed earnings since dates of acquisition.

5. Long term debt

	1979	1978
	(in thousands of dollars)	
Sinking fund debentures		
6% Series A due January 1, 1982	$ 263	$ 321
6¼% Series B due February 15, 1983	496	544
5½% Series D due May 15, 1984 (U.S. $600,000)	648	648
Term bank loans	4,000	8,000
	$5,407	$9,513

Sufficient debentures have been purchased for cancellation to eliminate the sinking fund requirements over the next five years except for $16,000 due in 1982 on the Series B and the redemption requirements on all sinking fund debentures at maturity.
Term bank loans bearing interest at rates of ½% above the lenders' prevailing prime commercial rates are due on April 15, 1981.

6. Preference shares

Authorized and outstanding — 299,453 shares (1978 — 312,751 shares) of $20 par value each redeemable at par

	1979	1978
	(in thousands of dollars)	
54,402 shares (1978 - 56,845) 5½% cumulative redeemable, $1.10 Series	$1,088	$1,137
120,916 shares (1978 - 125,191) 5½% cumulative redeemable, $1.10 Second Series	2,418	2,504
124,135 shares (1978 - 130,715) 6% cumulative redeemable, $1.20 Series	2,483	2,614
	$5,989	$6,255

During the year the Company purchased for cancellation 2,443 $1.10 Series, 4,275 $1.10 Second Series and 6,580 $1.20 Series preference shares for $203,000. The Company has met its obligations with respect to the purchase fund requirements attached to the preference shares.

7. Common shares

Authorized — 4,000,000 shares without par value, of which 2,582,332 are issued.

8. Foreign exchange gains

Earnings before income taxes include foreign exchange gains of $1,463,000 (1978 — $813,000).

9. Remuneration of directors and senior officers

The aggregate remuneration paid or payable to the directors and senior officers of the Company was $438,000 (1978 — $353,000).

10. Pension plan liability

Pension costs charged against earnings in the year include payment made to trust funds for current and past service requirements as determined by independent actuarial estimates. Unfunded past service costs, not included in the financial statements, amount to $7,661,000 at March 31, 1979. This amount will be funded and charged to operations over a period ending in 1991, in annual instalments as determined by an independent actuary.

11. Commitment

Under a modified contract to purchase prereduced iron pellets the Company is paying an annual penalty payment of $810,000 in lieu of accepting pellets. This penalty is payable in quarterly instalments until December 31, 1980.

Five Year Review

	1979	1978	1977	1976	1975
Sales and earnings ($000's)					
Net sales	$95,924	$64,520	$55,724	$50,288	$63,846
Income taxes	5,849	1,200	70	1,292	2,775
Earnings before equity in earnings of associated company (note A)	8,128	2,065	252	1,906	3,633
Equity in earnings of IPSCO	2,957	1,683	1,757	2,044	4,603
Net earnings (note A)	11,085	3,748	2,009	3,950	8,236
Other financial data ($000's)					
Capital expenditures	1,624	900	1,672	3,277	4,945
Depreciation	2,328	2,216	2,119	1,990	1,711
Cash generated from operations (note B)	10,585	4,612	2,743	5,130	6,423
Year end position ($000's)					
Working capital	17,165	16,865	16,592	17,785	8,354
Fixed assets — net	23,201	23,905	25,650	26,097	24,810
Total assets	85,897	77,342	78,240	76,058	72,543
Long term debt	5,407	9,513	11,533	11,545	1,653
Common shareholders' equity	52,947	43,957	41,739	41,759	39,853
Per common share data					
Earnings (note A)	4.16	1.31	.63	1.38	3.03
Dividends declared	.70	.32	.68	.68	.68
Shareholders' equity	20.50	17.02	16.16	16.17	15.43
Other statistics					
Number of employees	1,126	1,041	1,103	991	1,202
Number of shareholders	4,850	5,818	5,838	6,141	6,341

Note A. Earnings shown above are before an extraordinary loss of $429,000, or 17¢ per common share, recorded in 1978 when the cost of the rod mill feasibility study conducted during 1975 and 1976 was charged to operations.

Note B. Cash generated from operations consists of net earnings before extraordinary gains or losses, including dividends received, plus depreciation and deferred income taxes.

Slater Steel Industries Limited

Directors

Dr. Arthur N. Bourns
President and Vice Chancellor, McMaster University

J. Michael Edwards
Managing Director, British Steel Corporation (International) Ltd.

E. Peter Gush
President and Chief Executive Officer, Hudson Bay Mining and Smelting Co., Limited

Bruce M. Hamilton*
President of the Corporation

Douglas C. Marrs*°
Chairman, Westinghouse Canada Limited

Richard C. Meech, Q.C.*°
Partner, Borden & Elliot

Gordon P. Osler*
Chairman, Stanton Pipes Limited; Chairman of the Corporation

W. Cedric R. Penry
Director-Project Development, British Steel Corporation (Overseas Services) Limited

Norman B. Preece*°
President, Stanton Pipes Limited

**Member of Executive Committee of the Corporation*
°Member of Audit Committee of the Corporation

Officers
Gordon P. Osler, Chairman of the Board
Bruce M. Hamilton, President
David W. Albright, Secretary-Treasurer
Darrold A. Toner, Comptroller
Peter N. Popadiuk, Assistant Treasurer

Officers of Burlington Steel Division
Ronald B. Wilson, Executive Vice President
John F. Miles, Vice President-Manufacturing

Officer of Slater Products Division
John H. Taylor, Vice President-General Manager

Corporate Offices
Slater Steel Industries Limited
681 King Street West, P.O. Box 271, Hamilton, Ontario. L8N 3E7

Divisions
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319 Sherman Avenue North, P.O. Box 271, Hamilton, Ontario. L8N 3E7

Slater Products Division
681 King Street West, P.O. Box 271, Hamilton, Ontario. L8N 3E7

Associate Company
Interprovincial Steel and Pipe Corporation Ltd.
P.O. Box 1670, Regina, Saskatchewan. S4P 3C7

Registrar & Transfer Agents
Montreal Trust Company; Toronto, Montreal, Vancouver, Winnipeg

Listed
Toronto Stock Exchange

Auditors
Coopers & Lybrand, Chartered Accountants

Slater Steel Industries Limited

681 King Street West, P.O. Box 271, Hamilton, Ontario L8N 3E7

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